

Minneapolis Community Development Agency

Request for City Council Action

Date: November 25, 2002

To: Council Member Lisa Goodman, Community Development Committee,

Prepared by Bob Lind, Manager, Business Finance, Phone 612-673-5068

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: A Public Hearing and Request for Preliminary Approval of up to \$38,000,000 in 501(c)(3) Tax-exempt Revenue Bonds for the American Housing Foundation Project

Previous Directives: None. Project is requesting preliminary approval at this time on the issuance of conduit revenue bond financing.

Ward: 2

Neighborhood Group Notification: On November 13, 2002 the West Bank Community Coalition was notified of this pending project.

Consistency with *Building a City That Works*: The purchase of this student housing project by a nonprofit organization with its goal of providing assistance to students from economically disadvantaged families is consistent with Goal 4 of enhancing urban institutions through support of development efforts by our partnership activities.

Comprehensive Plan Compliance: The purchase of the GrandMarc Seven Corners student housing project is consistent with the City's comprehensive plan for this area.

Zoning Code Compliance: The student housing site is zoned C3A- Community Activity Center District.

Impact on the MCDA Budget:

- ☐ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☒ Other financial impact (Explain): The issuance of 501(c)(3) tax-exempt revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

Living Wage/Business Subsidy: Does not apply. The project is a 501(c)(3)

conduit financing that is not subject to Living Wage/Business Subsidy.

Job Linkage: N.A.

Affirmative Action Compliance: N.A.

RECOMMENDATION:

City Council Recommendation: The Interim Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be published following a Public Hearing held on November 25, 2002 notice of which was published in Finance and Commerce on November 9, 2002, giving Preliminary Approval to the issuance of up to \$38,000,000 in 501(c)(3) Tax-exempt Revenue Bonds for the American Housing Foundation Project.

Background/Supporting Information

PROJECT LOCATION & DESCRIPTION:

American Housing Foundation, a 501(c)(3) nonprofit organization currently owns over 7,000 units in 42 apartment communities in 17 cities in Texas and Oklahoma. American Housing Foundation (AHF) proposes to purchase the GrandMarc at Seven Corners, a 188-unit -- 260-bed student housing facility at 1849 Washington Avenue South. AHF intends to purchase the GrandMarc at Seven Corners student housing project in connection with its Educational Opportunity Plan. Through this plan, AHF turns a portion of the units into housing scholarships for economically disadvantaged families. In addition, AHF uses some of the revenues from the facility for scholarships, counseling and other services for eligible students.

TYPE OF FINANCING:

It is anticipated that up to \$38 million in 501(c)(3) tax-exempt revenue bonds will be issued for the project in two series of bonds. The senior bonds will be enhanced by municipal bond insurance and thereby with an investment grade rating, and the junior bonds will be issued non-rated. Both series of bonds will be underwritten by Banc of America Securities, LLC with junior bonds privately placed by Banc of America.

AFFORDABLE HOUSING POLICY:

Student housing financed solely with non-entitlement 501(c)(3) housing revenue bonds are exempt from the Affordable Housing Policy requirement that 20% of the units be affordable at 50% of median income. Student housing is generally not structured as low income housing and is not eligible for low income housing tax credits.

IRB CAP:

The project is not subject to the volume cap, in that the project is exempt from income tax under Internal Revenue Code Section 501(c)(3) for its exempt purposes and is classified thereunder as a non-profit organization.

BOND COUNSEL:

Leonard, Street & Deinard

UNDERWRITER:

Banc of America Securities, LLC

AUTHORIZING THE ISSUANCE OF QUALIFIED 501(c)(3) STUDENT
HOUSING REVENUE BONDS BY THE CITY OF MINNEAPOLIS PURSUANT
TO MINNESOTA STATUTES SECTION 469.152 THROUGH 469.1651 AND
THE SUBMISSION OF AN APPLICATION FOR APPROVAL TO THE
MINNESOTA DEPARTMENT OF TRADE AND ECONOMIC DEVELOPMENT

WHEREAS, pursuant to Minnesota Statutes, Sections 469.152 through 469.1651, known as the Minnesota Municipal Industrial Development Act (the “Act”), the City of Minneapolis, Minnesota (the “Issuer”) is authorized to issue revenue bonds to finance the acquisition and construction of projects, as defined in Section 469.153, Subd. 2, including any real or personal properties used or useful in connection with a revenue producing enterprise; and

WHEREAS, the Issuer has received a request that it issue qualified tax-exempt bonds to assist American Housing Foundation (“AHF”), a nonprofit corporation and 501(c)(3) organization, or a limited liability company in which either AHF or an affiliate will be the sole member (the “Developer”), in financing the acquisition of an existing student housing facility (the “Project”) located at 1849 Washington Avenue South in the City of Minneapolis, Minnesota; and

WHEREAS, the Issuer has been advised by representatives of the Developer that conventional, commercial financing to pay the capital cost of the Project is available only on a limited basis and at such high costs of borrowing that the economic feasibility of operating the Project would be significantly reduced; and

WHEREAS, a public hearing on the Project was held this date after notice was published, at which public hearing all those who desired to speak were heard; and

WHEREAS, no public official of the Issuer has either a direct or indirect financial interest in the Project nor will any public official either directly or indirectly benefit financially from the Project.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF MINNEAPOLIS:

1. The Issuer hereby gives preliminary approval to the proposal of the Developer to finance the Project pursuant to the Act through the issuance of the Issuer's qualified tax-exempt bonds (the "Bonds").

2. On the basis of information available to the Issuer it appears, and the Issuer hereby finds, that the Project constitutes properties, real and personal, used or useful in connection with a revenue producing enterprise within the meaning of Subdivision 2(b) of Section 469.153 of the Act; that the Project furthers the purposes stated in Section 469.152.

3. The financing of the Project is hereby given preliminary approval by the Issuer subject to, among other things, the approval of the Project by the Minnesota Department of Trade and Economic Development or such other state office having authority to grant approval (the "DTED"), and subject to final approval by the Developer and the purchaser of the Bonds as to the ultimate details of the financing of the Project.

4. In accordance with Subdivision 3 of Section 469.154, the Mayor of the Issuer is hereby authorized and directed to submit the proposal for the Project to DTED requesting its approval, and other officers, employees and agents of the Issuer are hereby authorized to provide DTED with such preliminary information as it may require.

5. The Developer has agreed and it is hereby determined that any and all costs incurred by the Issuer in connection with the financing of the Project, whether or not the Project is carried to completion and whether or not approved by the Issuer, will be paid by the Developer.

6. Nothing in this resolution or in the documents prepared pursuant hereto shall authorize the expenditure of any Issuer funds on the Project other than the revenues derived from the Project or otherwise expressly granted to the Issuer for this purpose. The Bonds shall not constitute a charge, lien or encumbrance, legal or equitable, upon any property or funds of the Issuer except the revenue and proceeds pledged to the payment thereof, nor shall the Issuer be subject to any liability thereon. The holder of the Bonds shall never have the right to compel any exercise of the taxing power of the Issuer to pay the outstanding principal on the Bonds or the interest thereon, or to enforce payment thereof against any property of the Issuer. The Bonds shall recite in substance that the Bonds, including interest thereon, are payable solely from the revenue and proceeds pledged to their payment. The Bonds shall not constitute a debt of the Issuer within the meaning of any constitutional or statutory limitation.